ARMY NATIONAL GUARD
Management Controls

FY03

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ARMY NATIONAL GUARD
MANAGEMENT CONTROLS

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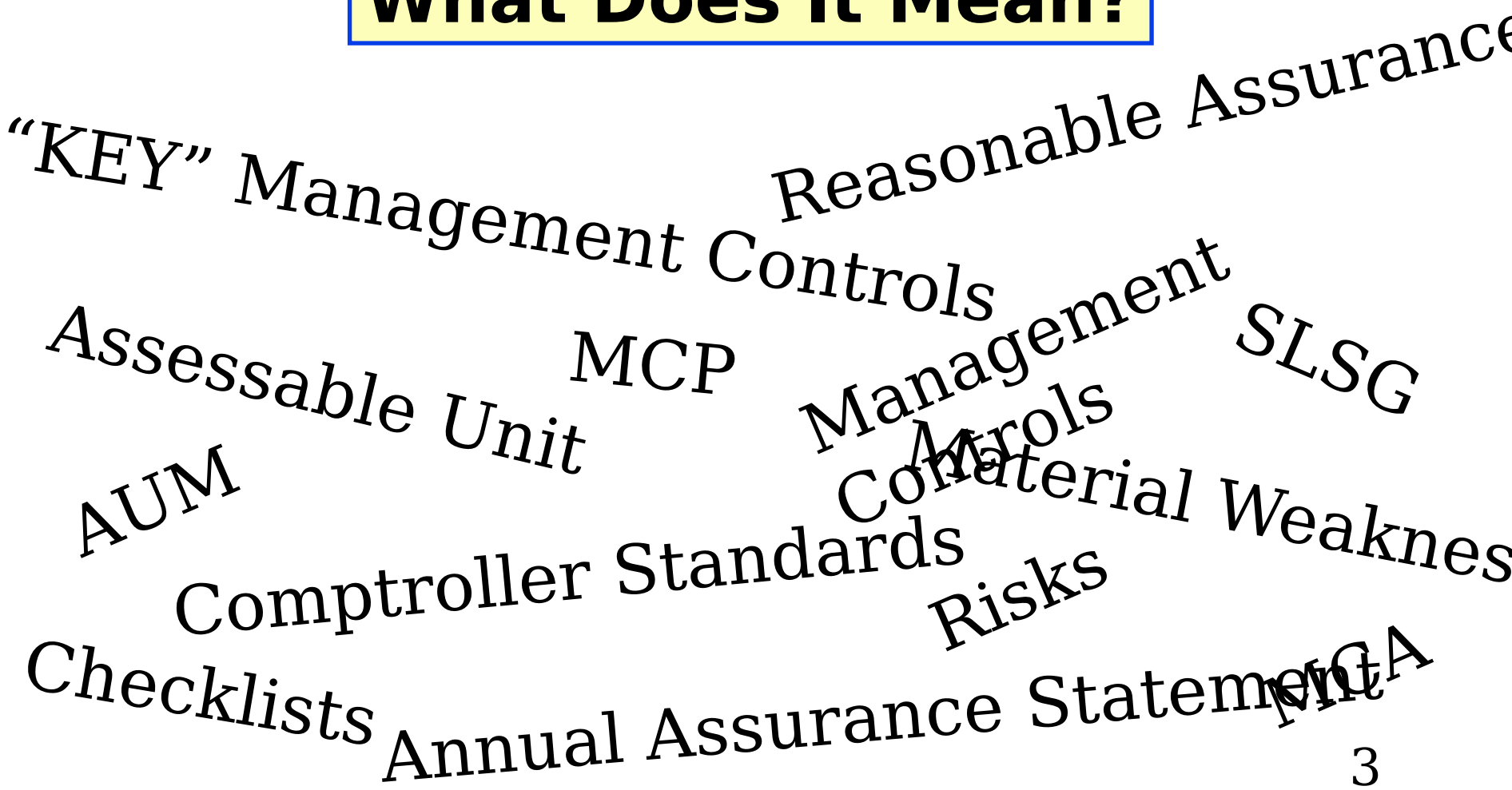
What Does It Mean?



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Overview

- Why management controls?
- Why required?
- What are management controls?
- What is a material weakness?
- Who is involved?
- What is the process?
- What are the tools for success?

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The Environment

- Shrinking Resources
- Factors of Human Nature
  - Expediency Rules
  - Oversight Erodes
  - Deficit Decision Making

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It's The Law!

- Accounting and Auditing Procedures Act of 1950
- Federal Managers' Financial Integrity Act of 1982
  - AR 11-2, Management Control, Aug 94
    - Establish Effective Management Controls
    - Evaluate the Controls Periodically
    - Submit a Broad Annual Assessment
    - Report, Track & Correct Material

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Intent of AR 11-2

- Asks managers “What Are Your Risks?”

- “How do you have them covered?”

- Do you have a “reasonable assurance”
  that management controls are in place
  and working as intended?

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Each program and function has **POTENTIAL** for:

- Waste
- Loss
- Unauthorized use
- Misappropriation
- Mismanagement

“Inherent Risk” Is Manageable

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Risk or Opportunity?

- What is the “Tone at the Top?”
- Know organization’s mission objectives
- What “things” could possibly prevent accomplishing the objectives = Risk!
- What’s the scope & likelihood of reoccurrence?
- What’s the impact … assess the value of implem a control process/device?
- Is there a “control” in place to minimize/reduce
- Determine the cost vs. benefit ratio

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What are Management Controls?

Administrative Tools Designed To Ensure That "What Should Happen Does Happen"

- Rules: Regulations, Policies, Legislation
- Methods: SOPs, Internal/External Reviews (e.g., Command Logistics Review Team (CLRT), Joint Reviews)
- Devices: Computer Firewalls

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Effective Management Controls?

Scenario: Different States but same functional area (Supply Room) requiring evaluation.

Objective: Secure assets in supply room

Mgmt Control?: Lock on Supply Room Door?

STATE "A"	STATE "B"
> Weapons	> Janitorial Supplies
> Ammunition	> Paper Products

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KEY Controls Vs. Management Controls?

KEY Control	Mgmt Control
• In every functional area	• Necessary to function
• Critical to mission	• **Noncompliance Does NOT severely impact mission success**
• **Noncompliance severely impacts mission success**	• Status can change
• Status can change	
• Subject to	

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Effective Management Controls

- Ensure Accurate/Reliable Mgmt Information
- Ensure Compliance with Policies, Plans, Procedures and Laws
- Improve Business Practices of the Organization
- Proactive Approach
- Safeguard Resources

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Criteria for a Material Weakness?

MUST include both conditions:

1.) Involves a breakdown in the controls
(i.e., NOT in place, NOT being used, or inade

2.) Warrants attention of next higher echelon for
or awareness of the problem

Determining if a Weakness is "Material"

A subjective, management judgment that should consider:

- Actual or potential loss of resources (& frequency)
- Sensitivity/magnitude of funds, property/other resources
- Current or probable media or congressional interest
- Unreliable information causing unsound mgmt decisions
- Impaired fulfillment of essential mission

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Resource Deficiencies

In Themselves

Are <u>NOT</u>

Management Control

Weaknesses.

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Who Is Involved?

The Simple Answer: **EVERYONE**

- Senior Levels of Government
- ARNG's SLSG (Senior Level Steering Group)
- Assessable Unit Managers (AUM)
- Management Control Administrators (MCA)
- Functional Managers

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SLSG Process

- Review material weaknesses
- Discuss corrective actions & identify OPR
- Assign action items
- Identify & discuss areas of vulnerabilities
- Provide updates at quarterly meetings

Commander's are Responsible for the Execution and Implementation of the MC Program

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"SLSG Success Story"

- Leadership support
- MCP is becoming a "household word"
- MCP is a major focal point
- 74% closed in first year (FY00) & 44%

- Timely resolution
- Guard-wide approach
- Addressing vulnerabilities
- Improved annual assurance statements

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State Adjutant General & USPFO

- Endorses & supports NGB/ARNG program guidance
- Ensures required mgmt control evaluations are conducted according to 5-Year mgmt control plan
- Ensures mgmt control responsibilities are explicitly covered in the DA Forms 67-9-1 & 7222.1 of

Examples of An Explicit Statement in -1

- Under “Major Performance Objective” in Part I

Senior Designated Official (CofS) - “Ensures comp
with paragraph 1-13, AR 11-2 (Management
Control).”

Assessable Unit Managers (Directors) - “Ensures
with paragraph 1-14, AR 11-2 (Management
Control).”

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Senior Designated Official = CofS

- Overall Responsibility for implementation of an effective management control process
- Designates MCA
- Oversees preparation of an Annual

Assurance Statement
that accurately describes the status of management
controls in the reporting organizations and fully

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Assessable Unit Managers = Directors

- AUM MUST be at least a Colonel/GS-15 (waivers for installations)
- Establishes 5-Year Management Control Plan
- Ensures functional managers are trained in mgmt control responsibilities
- Ensures evaluations are conducted IAW 5-Year Plan & documented on DA Form 11-2-R
- Certifies results of evaluations, identifies Material

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MCA =

- Administers Organization's MCP
- Identifies training requirements & provides training
- Prepares organization's 5-year MC Plan or assists
  AUMs in preparation of assessable unit's 5-year plan
- Provides preparation guidance of AAS to AUMs

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Internal Review Office =

- Provides technical advice, assistance & consultation
- During audits:
  - Evaluate effectiveness of management controls
  - Adequacy of management control evaluations
  - Adequacy of corrective actions for weaknesses

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Inspector General Office =

During Inspections:

- Consider management controls in the assessment of systemic issues and problems and make appropriate recommendations.

- Provide periodic reports summarizing management control weaknesses identified in inspections.

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What is The Process?

- Know the “Army Management Control Evaluations”
- Review Your Mgmt Control 5-Year Plan
  - Add “High Risk” areas
- Conduct Routine Evaluations / GAO Standards
  - Use Alternative Methods when applicable
  - I.D. Weaknesses and Corrective Action
  - Document on DA Form 11-2-R

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MCP Tools

- Organizational Mission Statement = Objectives
- General Accounting Office Standards, Nov ‘99
- Inventory of Army Management Control Evaluations (Army’s web site)
- Organization’s 5-Year Management Control Plan

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General Accounting Office Standards

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information & Communications
5. Monitoring

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www.asafm.army.mil/fo/fod/mc/amcec/amcec1.asp

SITE SAMPLE

FUNCT. DESCRIPTION	FUNC LEVELS	REGULATION DATE		
Combat Army Develop WARTRACE	G3/ DAMO	AR 11-30/ PROP-37/ DIRECTIVE 7/28/ App. I 95	X X	
Program Combat	G3/ DAMO	AR 5[illegible] App. C		30

DA FOA MACOM INSTALL

Activates Evaluation Checklist

ARC 5-YEAR MANAGEMENT CONTROL PLAN

EVALUATION DESCRIPTION	REG/SOURCE	ALT EVAL	RESP	NOTES	01	02	03	04	05
Accounting Activities	AR 37-47	**ORP Index**	ARC-A	AR		X			
Budget Execution	AR 37-49		ARC-BE	1	X		X		X
Commercial Accounts Activities	DFAS -IN 37-1		ARC-F	AR(F)	X		X		X
General Accounting Activities	DFAS -IN 37-1		ARC-A	AR(F)	X		X		X
Management Controls	AR 11-2		ARC-M	AR	X	X	X	X	X
Travel Pay Activities	DFAS -IN 37-1		ARC-F	AR(F)	X	X	X		X
Army Travel Card Program		**ASAFM Ck'list**	ARC-F & M	2		X		X	
Physical Security Inspection Program	AR 190-13	Phys Sec Survey	ALL	3		X			
Retail Supply Operation Property Book	AR 710-2	CSDP	ARC-A	AR		X			
Information Systems	AR 380-19		ALL						X
Military Pay	ARs 37-104-4 & 10	ORP Visits/ Checklists	ARC-F	Ongoing	X	X	X	X	X
DJMS-AC		"	ARC-F	Ongoing	X	X	X	X	X
DJMS-RC		"	ARC-F	Ongoing	X	X	X	X	X

HTML WEB SITE to retrieve Army's list of mandated functions requiri HTML
(address: www.asafm.army.mil/fo/fod/mc/amcec/inventory.htm)

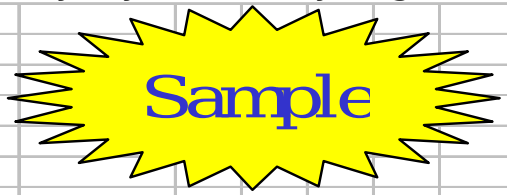
AR(F): Checklist will be published in future AR.

1. Interim guidance provided to field by memo, SAFM-BUC, Subj: Revised Budget Execution Checklist (Internal Controls), 19 Jul 96.

2. Interim guidance provided to field by e-mail to APCs at MACOM and HQDA Staffagencies. ASAFM published Evaluation Checklist on web site, 9 Sep 99.

3. Interim guidance provided to field by message HQDA//DAMO-ODL//, 152159ZDEC95, Subj: The Army Physical Security Program Management Control Evaluation Process.

If an alternate method of eval. is not indicated, use checklist in regulation.



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Examples of “Guard Unique” Functions

- Master Cooperative Agreements
- Youth Challenge Program
- Counter Drugs
- Weapons of Mass Destruction
- Partnership for Peace
- Medical & Physical Evaluation Boards
- Competitive Sporting Events

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Examples of Alternative Methods

- ARMS(Aviation Resource Mgmt Survey)(min:1.5
- CLRTX (Command Logisitics Review Teams)
- COMET (Command Maintenance Evaluation Te
- CORE (Command Organization Readiness Evals
- CIP (Command Inspection Program) (Ann./90 d
- PFO Annual Reconciliations
- ECAS (Environ. Compliance Assessment Schedu
- CSDP (Command Supply Discipline Program)
- IR Reviews/Audits
- IG Audits

MANAGEMENT CONTROL EVALUATION CERTIFICATION STATEMENT

For use of this form, see AR 11-2; the proponent agency is ASA(FM).

1. REGULATION NUMBER

2. DATE OF REGULATION

3. ASSESSABLE UNIT

4. FUNCTION

5. METHOD OF EVALUATION *(Check one)*

a. CHECKLIST

b. ALTERNATIVE METHOD *(Indicate method)*

APPENDIX *(Enter appropriate letter)*

6. EVALUATION CONDUCTED BY

a. NAME (*Last, First, MI)*

b. DATE OF

7. REMARKS *(Describe your review process)*

a. Describe how each key management control was tested (e.g., direct observation, file/documentation review, analysis, sampling, simulation, other _____).

MUST be "certified" & signed by AUM

8. CERTIFICATION

I certify that the key management controls in this function have been evaluated in accordance with provisions of AR 11-2, Management Control. I also certify that corrective action has been initiated to resolve any deficiencies detected. These deficiencies and corrective actions *(if any)* are described above or in attached documentation. This certification statement and any supporting documentation will be retained on file subject to audit/inspection until superseded by a subsequent management control evaluation.

Retain on FILE

a. ASSESSABLE UNIT MANAGER

(1) TYPED NAME AND TITLE

b. DATE CERTIFIED

(2) SIGNATURE

DA FORM 11-2-R, JUL 94

EDITION OF JAN 94 IS OBSOLETE:

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Instructions for the DA Form 11-2-R

- Answers must be based on actual "TESTING" of key
  management controls
- Identify deficiencies & corrective action;

AUM assesses
  level of seriousness (materiality) & organizational
  impact to determine at what level corrective actions
  reside (State/ARNG/HQDA)

- ONLY the AUM can "certify" evaluation

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Lessons Learned…The Hard Way

"We will tolerate problems, but we won't tolerate not reporting them…the worst feeling in the world is realizing later that you could have taken steps to prevent disaster, if only you had known the facts."

Norm Augustine, Lockheed Martin's CEO, commenting on Boeing's failure to report the design flaw in the placement of the center fuel tank on their 747…for 19 years! (Suspected to be the cause of several fatal crashes)

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Notional Annual Assurance Statement Cycle

- XX XXX XX - AUM Training
- 1 Dec XX - 30 Apr XX - Conduct Evaluations
- XX Feb XX - Submit updated FYXX 5-year plan to MCA
- XX Apr XX - Eval. Function/complete DA Forms 11-2-R
- XX May XX - AUM certifies/signs DA Forms 11-2-R
- XX May XX -MCA receives all -Rs/changes to 5-year plan
- XX Jun XX - State/Divs & MCA completes AAS
- **XX Jun XX - TAG/PFO sign AAS/submits to ARNG**

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ARNG - Annual Assurance Statement Cycle

- **1 JULY XX - Suspense for all Statements to ARNG**
- XX Aug XX - ARNG SLSG Convenes
- XX Sep XX - AAS to NGB-IR for review/validation
- XX Sep XX - Brief DDARNG & DARNG
- XX Oct XX - Brief CNGB & send AAS to Sec Army
- XX Nov XX - Participate in Army's SLSG
- XX Nov XX - Sec Army sends to Sec Defense…..
- 31 Dec XX - President & Congress rec consolidated AAS

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DoD & Army Systemic Weaknesses

1. Financial Accounting Processes and Systems
   - Financial Reporting of Real Property & General Equipment
2. Total Asset Visibility
   - Equipment In-Transit Visibility
- Information Assurance
  - Information Systems Security
- Acquisition Process and Systems
- Management of Unexploded Ordnance
  - Management of Unexploded Ordnance

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ARNG'S FY02 ANNUAL ASSURANCE STATEMENT

- Integrity Act requires a broad assessment of the implementation of management controls, reasonable assurance of operational effectiveness, & identification of corrective action plan for resolution of material weakness(es).

- **New weaknesses elevated to Sec Army FOR AWARENESS ONLY:**
  1. IET Program
  2. SRIP

- **Updated or Closed Weaknesses at Sec Army level:**
  1. LOD/InCap Pay System (SABERS)
  2. DPI/SSD from USPFO to State Support Shortfalls
  3. Property Acct. in VI
  5. Existing Accounting
  6. * Auto.Fielding/Network
  7. * Aviation Mgmt in VI

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TAB A of Annual Assurance Statement

- LEADERSHIP EMPHASIS…Compliments for ARNG
  - HOW Demonstrated? TAG memos, staff meetings, etc…
- EDUCATION & TRAINING
  - Document (sign-in sheets)
  - Required at all levels: AUMs (Directors) & functionals
- EXECUTION
  - Document on the DA Form 11-2-R (actual testing/audit trail)
  - Organizational level Material Weakness review & determination

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Keys To Success!

- Leadership Emphasis and Support
- Education and Training
- Routine & Properly Documented Evaluations
- Timely Reporting, Tracking & Correction
- ***A Culture That "ENCOURAGES" the Bos***

to

Hear Bad News...Without Messenger Fatalities!

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Errors Arise From:

- Misunderstanding
- Mistakes
- Carelessness
- Distractions
- Fatigue
- Complacency
- Collusion
- Management Override
- Budget Constraints
- Excess Empowerment
- Staffing Limitations
- Other Priorities

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Analysis…

- **TRAINING**
- **Frequency of Joint Reviews**
- **Watch congressional adds**
- **Material Weaknesses…State review process**
- **Look at process; not only the data value (%) (SPIRS)**
- **Contracts & Contractors … inherently governmental**

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Analysis…

Better to have ACCEPTABLE controls that the majority (80%) will implement than the best controls that the majority ignore

NOT just the methodology of data….

Look at indicators in your process

Keep your eyes & attention on the OPPORTUNITIES and not upon side issues

End result is to strengthen controls

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Ensuring That Our Management Controls

Work Right

Is Nothing More Than

What Good Managers Already Do.

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Food for Thought…

HOW DO YOU KNOW . . .

that Controls are In Place,

are Working as Intended,

&

are Effective?

‘More than an assumption . . . It’s

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MORE Food for Thought.....

If you see something wrong and you do not correct it,

you have created a new standard!

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QUESTIONS, SUGGESTIONS, & CRITIQUES!